



Auditor-General of South Africa

Umvoti Municipality

Audit report 2017-18

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Umvoti Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Umvoti Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018. The previous period's errors related to the write-off of work in progress, VAT liability adjustment and incorrect allocation of receivables payments.

Material provision for impairment – trade debtors

8. As disclosed in notes 5 and 6 to the financial statements, a material provision for the impairment of trade debtors totalling R37,99 million (2016-17: R26,17 million) was made. This represents 47% of the gross receivables balance, and is a result of long outstanding trade debtors.

Material losses – electricity

9. As disclosed in note 39 to the financial statements, material electricity losses of R11,64 million (2016-17: R9,93 million) were incurred due to illegal connections and distribution losses caused by ageing infrastructure. The losses represent 16,87% of total electricity purchased by the municipality.

Other matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the Umvoti Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Objective 2 – basic services	x – x
Objective 3 – local economic development	x – x

Objective 2 – basic services

Various indicators

19. The source information for achieving the following planned indicators were not clearly defined. Furthermore, the performance indicators did not specify the place/area/location, where the required level of performance will take place.

Indicators	Planned target
Number of high mast lighting constructed	15 x 30 metre high mast lighting
Number of metres of pavements and storm water drains rehabilitated	1 500 metres
Number of m ² fencing erected	560m ²

Various indicators

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets listed below. This was due to limitations placed on the scope of my work as I was not provided with reliable schedules that reconcile to the reported achievement. Furthermore, I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements in the annual performance report.

Indicator	Reported achievement
Number of households with access to electricity (municipal licensed area)	3 303
Number of businesses with access to electricity (municipal licensed area)	505
Number of households with weekly access to solid waste removal	3 169
Number of businesses with daily access to solid waste removal	649
% of electricity faults addressed within a 3 hour turnaround time (municipal licensed area)	100% within 3 hours

Number of new public facilities to be constructed

21. The target “Kwakhobo hall and crèche”, as determined during planning for the indicator “number of new public facilities to be constructed”, was not specific in clearly identifying the nature, and the required level of performance, since the unit of measure is not indicated, as required by the Framework for Managing Programme Performance Information (FMPPI).

Objective 3 – local economic development

Number of small, medium and micro enterprises (SMMEs) and cooperatives supported

22. The indicator “number of small, medium and micro enterprises (SMMEs) and cooperatives supported” as determined during planning, was not specific in clearly identifying the nature and the required level of performance nor was there a clear definition of what constitutes “support”, as required by the FMPPI.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19 to 22 of this report.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic services objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
27. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

29. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
30. Reasonable steps were not taken to prevent irregular expenditure of R35,63 million, as disclosed in note 37 to the financial statements, as required by section 62(1)(d) of the MFMA. The irregular expenditure related to procurement processes as quotations and competitive bids were not followed, as well as non-compliance with the Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (MSCM), which were also identified in the previous period.
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, in contravention of section 62(1)(d) of the MFMA. The fruitless and wasteful expenditure of R230 053 disclosed in note 36 to the financial statements was caused by penalty interest charged on the late payment of Eskom accounts.

Human resource management

32. Appropriate systems and procedures to monitor, measure and evaluate staff performance were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Strategic planning

33. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

Procurement and contract management

34. Sufficient appropriate audit evidence could not be obtained that some contracts and quotations were awarded in accordance with the legislative requirements, as documentation supporting the procurement process could not be obtained.
35. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were accepted only from bidders whose tax matters had been declared by the South African Revenue Services to be in order, as required by MSCM regulation 43.
36. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by MSCM regulation 5.
37. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of MSCM regulations 17(a) and (c).
38. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by MSCM regulation 13(c).
39. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by MSCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCM regulation 36(1).
40. Some contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act No. 5 of 2000 and 2017 preferential procurement regulations 11(1).

Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
42. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
43. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

46. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

47. The financial statements and annual performance report contained numerous misstatements that were corrected. These were mainly due to the inadequate application of the financial reporting framework and a lack of proper reviews on quarterly, mid-year and annual performance reports by management to ensure that they were supported by reliable and complete information.

48. Supply chain management non-compliance could have been prevented had compliance been properly reviewed and monitored by management.

Pietermaritzburg

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **municipality’s** internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the **Umvoti Municipality’s** ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.